

Message Text

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ACTION EB-08

INFO OCT-01 EA-07 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

DODE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00

NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15

STR-04 TRSE-00 ACDA-07 FEA-01 OPIC-03 XMB-02 /100 W

-----151203Z 087621 /23-12

R 150900Z APR 77

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 0476

INFO AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

AMCONSUL MEDAN

AMCONSUL SURABAYA

USDOC

C O N F I D E N T I A L JAKARTA 4860

USDOC FOR MEPD

E.O. 11652: GDS

TAGS: ENRG, ID

SUBJECT: DOW PETROCHEMICAL PROJECT

REF: 76 JAKARTA 14349

1. DOW CHEMICAL AND GOI COMPLETED FIRST ROUND OF TECHNICAL MEETINGS ON DOW'S PROPOSED NORTH SUMATRA ETHYLENE/PETRO-CHEMICAL COMPLEX IN LATE FEBRUARY. MEETINGS REPRESENTAED FIRST SUBSTANTIVE DISCUSSIONS SINCE GOI ISSUED DOW WITH LETTER OF INTENT LAST OCTOBER (REFTEL). NEXT ROUND OF NEGOTIATIONS IS SET FOR APRIL 18. BOTH SIDES AGREE THESE EDISCUSSIONS WILL BE IMPORTANT IN DETERMINING FUTURE OF PROJECT.

2. FEBRUARY SESSIONS DEALT WITH DOW'S REVISED PROPOSAL CALLING FOR OUTPUT OF 600,000 LBS/YEAR OF ETHYLENE IN FIRST PHASE OF PROJECT. GOI EQUITY IN THIS PORTION WOULD BE CONFIDENTIAL

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SOMETHING ON ORDER OF \$150 MILLION WITH TOTAL PRICE TAG OF ROUGHLY \$1.0 BILLION. DOW ALSO PRESENTED GOI WITH SERIES OF SEVENTEEN QUESTIONS/DEMANDS, SOME OF WHICH PERTAMINA SOURCES CHARACTERIZED AS BEING QUITE "TOUGH." PROBABLY TOUGHEST DEMAND FOR GOI TO SWALLOW WAS DOW REQUEST FOR MARKETING MONOPOLY (EXCLUSIVE PROTECTION AGAINST IMPORTS OR DOMESTIC PRODUCTS) FOR INTERMEDIATE

PETRO HEMICAL PRODUCTS WHICH HOPEFULLY WILL BE MANUFACTURED DURING SECONDARY PHASE OF PROJECT. DOW ASKING FOR PERIOD OF PROTECTION THAT COULD LAST AS LONG AS FIVE OR SIX YEARS. GOI REPLY, SIGNED BY MINISTER OF NATIONAL ECONOMY WIDJOJO, TERMED THIS REQUEST NOT ACCEPTABLE. OTHER QUESTIONS, MOSTLY OF TECHNICAL NATURE, POSED BY DOW WILL BE TAKEN UP NEXT WEEK.

3. ONE QUESTION WHICH HAS NOT SURFACED YET IS PRICE DOW WILL HAVE TO PAY FOR USE OF NATURAL GAS FEEDSTOCK. DOW HAS BEEN INFORMALLY THINKING IN TERMS OF BUYING GAS FROM MOBIL'S ARUN FIELD AT PRICE BETWEEN 50CTS-60CTS PER MCF. OIL AND GAS DIRECTOR WIJARSO HAS MADE IT CLEAR IN CONVERSATIONS WITH MBOFF THAT GOI WILL NOT ACCEPT THESE PRICES FOR DOMESTIC ENERGY RESOURCES. HIS VIEW, WHICH COULD BE INFLUENTIAL IN SHAPING FINAL INDONESIAN POSITION, IS THAT GOI SHOULD NOT TIE UP LARGE AMOUNTS GAS IN PETROCHEMICAL VENTURES AT ARTIFICIALLY LOW PRICES. BETTER TO KEEP GAS UNCOMMITTED TO MEET INDONESIA'S BURGEONING DOMESTIC ENERGY REQUIREMENTS IS HIS POSITION.

4. THERE ARE SOME IN BAPPENAS (NATIONAL ECONOMIC PLANNING BOARD) WHO QUESTION WHETHER DOW ACTUALLY INTENDS MOVE AHEAD WITH THIS PROJECT GIVEN COMPANY'S POTENTIAL COMMITMENTS IN SAUDI ARABIA AND ELSEWHERE. THEY INCLINED SEE DOW'S IMPOSING LIST OF QUESTIONS AS POSSIBLE "OUT." WE UNDERSTAND GOI, IN APPARENT EFFORT HEDGE BETS, HAS QUIETLY CONTACTED UNION CARBIDE TO DO SIX CONFIDENTIAL

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MAN/MONTH STUDY ON THIS PETROCHEMICAL PROJECT. WHILE DOW IS CLEARLY FRONTRUNNER, UNION WILL REMAIN IN BACKGROUND AS FALLBACK POSITION.

5. POTENTIALLY COMPLICATING FACTOR IS SUMITOMO PETROCHEMICAL PROJECT IN SINGAPORE. EMBOFF IN JAPANESE EMBASSY HERE REVEALED GOJ ENDORSEMENT OF JAPANESE PARTICIPATION EXPECTED "SOON." OECF CONCESSIONAL FINANCING WILL BE INVOLVED. ACCORDING EMBOFF, FUKUDA GOVERNMENT HAD BEEN RELUCTANT INITIALLY SUPPORT THIS PROJECT BUT BECAUSE OF PRESSURE FROM LEE KUAN YEW JAPAN DECIDED MOVE AHEAD. EMBOFF SAID HE FELT OBLIGED POINT OUT TO TOKYO ECONOMIC IMPLICATIONS OF SUCH JAPANESE INVOLVEMENT SINCE, IN HIS VIEW, REGION COULD NOT SUPPORT TWO ETHYLENE PROJECTS. HE ALSO INTENDED MENTION POSSIBLE INDONESIAN-JAPANESE BILATERAL IMPLICATIONS.

6. COMMENT: CONCERNS MENTIONED PARA 5 ABOVE APPEAR

HAVE MERIT. PERTAMINA SOURCES TELL US PROJECTED DEMAND FOR ETHYLENE PRODUCT IS NOT ENOUGH FOR TWO MAJOR PROJECTS. IN EVENT COMPETITION WITH SINGAPORE, PERTAMINA FEELS INDONESIA WOULD HAVE NOD BECAUSE OF ACCESS TO CHEAPER FEEDSTOCK SOURCES. LAST FALL WHEN SINGAPOREANS WERE CHECKING ON INDONESIAN PETROCHEMICAL PROJECTS, MINES MINISTER SADLI MADE NO BONES ABOUT GOI OPPOSITION TO SUMITOMO PROJECT. HE REPORTEDLY STATED SINGAPORE PROJECT WOULD GO AHEAD "OVER MY DEAD BODY." WE HAVE NO INDICATION THIS OPPOSITION HAS SOFTENED, GIVEN FACT PRESIDENT SUHARTO HAS DESIGNATED INDONESIAN PETROCHEMICAL PLANT AS PRIORITY PROJECT. END COMMENT.

7. ABOVE INFORMATION SUGGESTS DOW PROJECT REMAINS VERY FLUID AT MOMENT. EMBASSY WILL ATTEMPT FOLLOW-UP REPORT AFTER NEXT WEEK'S MEETING BETWEEN DOW EXECUTIVES
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